

Message Text

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PAGE 01 STATE 304416
ORIGIN EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15
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FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA
INFO USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ETRD, GATT, CA

SUBJECT: CANADIAN DUTY REMISSION SCHEME ON TV RECEIVERS

1. A CANADIAN TECHNICAL DELEGATION BRIEFED A U.S. INTERAGENCY GROUP ON DECEMBER 8 ON CANADA'S DUTY REMISSION PROGRAM, EFFECTIVE JANUARY 1, 1977, FOR TELEVISIONS IMPORTED INTO CANADA.

2. ACCORDING TO THE CANADIAN DELEGATION, THE PROGRAM IS DESIGNED TO PROVIDE A STABLE ENVIRONMENT WHICH WOULD ALLOW THE RATIONALIZATION OF PRODUCTION OF TV EQUIPMENT IN CANADA, WHOSE MARKET IS TOO SMALL TO SUPPORT CURRENT PRODUCTION. IT'S GOAL IS TO CONCENTRATE PRODUCTION ON FEWER LINES IN ORDER TO ACHIEVE SCALE ECONOMIES, EXPORT PRODUCTION EXCESS TO CANADIAN NEEDS (MAINLY TO THE U.S.), AND IMPORT COMPLEMENTARY LINES (MAINLY FROM THE U.S. AND
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JAPAN).

3. THE PROGRAM HAS THREE ELEMENTS:

A. A COMMITMENT TO MAINTAIN THE CURRENT MFN TARIFF RATE OF 15 PERCENT AD VALOREM ON TV RECEIVERS FOR FIVE YEARS;

B. WITHDRAWAL OF GSP AND BRITISH PREFERENTIAL RATES ON COLOR TV RECEIVERS OF 16-INCH OR LARGER SCREEN SIZE FOR THREE YEARS; AND,

C. A FIVE YEAR DUTY REMISSION SCHEME ON IMPORTED TELEVISION RECEIVERS (THE PERCENT OF DUTY REMITTED BEING EQUAL TO THE RATIO OF VALUE OF PRODUCTION IN CANADA OF TV PRODUCTS TO VALUE OF SALES OF TV RECEIVERS IN CANADA).

4. SINCE THE PROGRAM WILL LIKELY RESULT IN EXPORTS TO THE U.S. AND COULD BE INTERPRETED AS AN EXPORT SUBSIDY, THE QUESTION OF COUNTERVAILING DUTIES MAY ARISE. IN PARTICULAR THE PROGRAM FAVORS COMPANIES WHO BOTH MANUFACTURE IN AND IMPORT INTO CANADA OVER THOSE WHO ONLY EXPORT TO CANADA. PRELIMINARY INDICATIONS ARE THAT IF A COMPLAINT IS RECEIVED, COUNTERVAILING ACTION WOULD RESULT. THE PROGRAM MAY ALSO VIOLATE CERTAIN GATT PROVISIONS (IN PARTICULAR, ARTICLE XVI) AND MAY BE RAISED IN THE GATT BY COUNTRIES SUFFERING IMMEDIATE ADVERSE EFFECTS (SOUTH KOREA, TAIWAN, AND SINGAPORE).

5. ALTHOUGH THE CABINET DECIDED TO GO AHEAD WITH THE PROGRAM ON DECEMBER 2, HALLIDAY OF THE CANADIAN EMBASSY OFFERED TO WITHHOLD PUBLIC ANNOUNCEMENT OF THE PROGRAM UNTIL AFTER DECEMBER 13 TO GIVE THE USG AN OPPORTUNITY TO COMMENT. WE HAVE INFORMED THE EMBASSY ORALLY THAT (A) THE PROGRAM DISCRIMINATES AGAINST U.S. FIRMS WHICH DO NOT PRODUCE IN CANADA AND THERE IS, THEREFORE, THE POSSIBILITY THAT A U.S. COMPANY WILL INITIATE AN UNFAIR TRADE PRACTICE COMPLAINT. (B) SINCE A SUBSIDY MAY BE PRESENT, WE CANNOT EXCLUDE THE POSSIBILITY OF COUNTERVAILING DUTIES. (C) WE RESERVE OUR GATT RIGHTS. WE HAVE ENCOURAGED THE GOC TO NOTIFY THE GATT.

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6. FYI. HALLIDAY SEEMED PLEASED WITH OUR NEGATIVE REACTION. HE INDICATED THAT THE INFORMATION WOULD BE "VERY HELPFUL TO CERTAIN PEOPLE IN OTTAWA", IMPLYING THAT A STRUGGLE IS TAKING PLACE WITHIN THE CANADIAN GOVERNMENT BETWEEN PROPONENTS AND OPPONENTS OF THE REMISSION SCHEME. END FYI. KISSINGER

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